

5-22-2014

# Northeast Minnesota Economic and Business Conditions Report: First Quarter 2014

King Banaian

*St. Cloud State University*, [kbanaian@stcloudstate.edu](mailto:kbanaian@stcloudstate.edu)

Richard A. MacDonald

*St. Cloud State University*, [macdonald@stcloudstate.edu](mailto:macdonald@stcloudstate.edu)

Follow this and additional works at: [https://repository.stcloudstate.edu/qebcr\\_ne\\_mn](https://repository.stcloudstate.edu/qebcr_ne_mn)



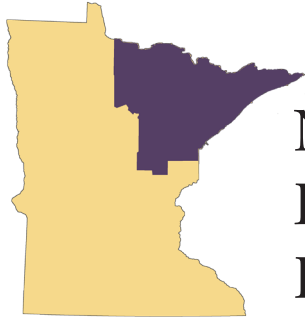
Part of the [Business Commons](#), [Growth and Development Commons](#), and the [Regional Economics Commons](#)

---

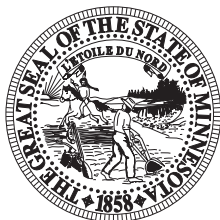
## Recommended Citation

Banaian, King and MacDonald, Richard A., "Northeast Minnesota Economic and Business Conditions Report: First Quarter 2014" (2014). *Northeast Minnesota Economic and Business Conditions Report*. 1.  
[https://repository.stcloudstate.edu/qebcr\\_ne\\_mn/1](https://repository.stcloudstate.edu/qebcr_ne_mn/1)

This Research Study is brought to you for free and open access by the Minnesota Regional Economic and Business Conditions Report at theRepository at St. Cloud State. It has been accepted for inclusion in Northeast Minnesota Economic and Business Conditions Report by an authorized administrator of theRepository at St. Cloud State. For more information, please contact [rswexelbaum@stcloudstate.edu](mailto:rswexelbaum@stcloudstate.edu).



Northeast Minnesota  
Economic and Business Conditions Report  
First Quarter 2014



OFFICE OF THE MINNESOTA  
SECRETARY OF STATE



SCHOOL OF PUBLIC AFFAIRS  
RESEARCH INSTITUTE  
ST. CLOUD STATE UNIVERSITY.

## TABLE OF CONTENTS

Executive Summary .....	1
Northeast Minnesota Leading Economic Indicators Index .....	2
Northeast Minnesota Business Filings.....	4
Northeast Minnesota Labor Market Conditions.....	10
Economic Indicators .....	15
Sources .....	17

### Executive Summary

**Northeast Minnesota business conditions are expected to improve over the next several months according to the predictions of the St. Cloud State University (SCSU) Northeast Minnesota Index of Leading Economic Indicators.**

The leading economic indicator index (LEI) improved in the first quarter as increases in filings for new business incorporations, improvements in a general measure of state business conditions and lower initial jobless claims drove the index higher. This was partially offset by weaker results of a supply managers' survey and a decline in the value of first quarter Duluth/Superior Metropolitan Statistical Area (MSA) residential building permits.

**There were 539 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the first quarter of 2014 — representing an 8.5 percent improvement from one year ago.** There were 54 new regional business incorporations in the first quarter, a 22.9 percent drop from 2013. Over the past 12 months, new limited liability company (LLC) filings in Northeast Minnesota increased by 15.2 percent — rising to 266 in the first quarter of 2014. New assumed names totaled 192 in this year's first quarter — a 12.9 percent increase from the first quarter of 2013. There were 27 new filings for Northeast Minnesota non-profits in the 2014 first quarter — one more than in the 2013 first quarter.

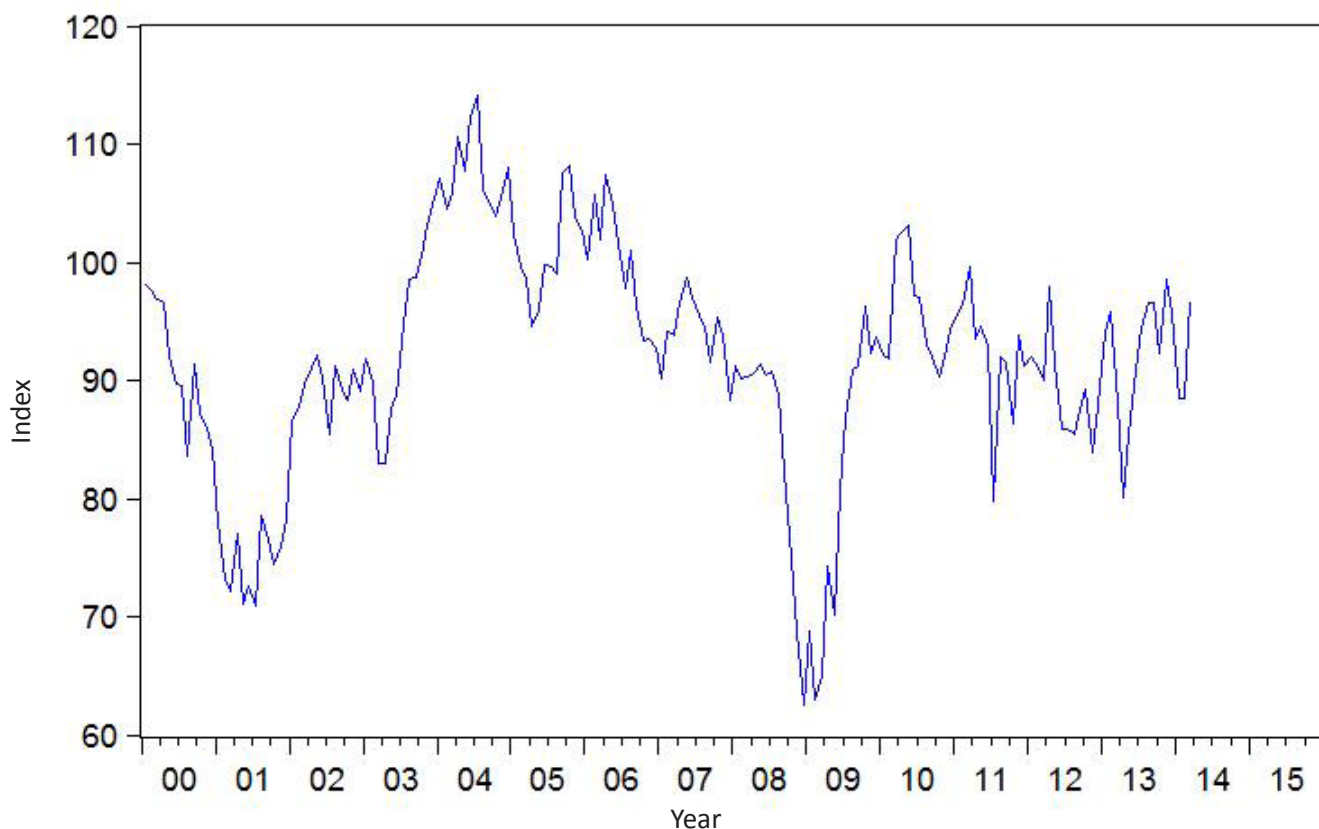
**Northeast Minnesota employment grew at a 0.8 percent rate over the first quarter.** More than 1,000 additional residents of Northeast Minnesota are now employed compared to one year ago, about equal to the growth of the labor force. The regional unemployment rate in March 2014 was 7.2 percent, slightly lower than the 7.3 percent rate of March 2013. This quarter's initial claims for unemployment insurance are basically unchanged from the first quarter of 2013, and there are nearly two job vacancies for every five unemployed people in Northeast Minnesota.

**Data from the Duluth/Superior Metropolitan Statistical Area (MSA) show strong economic conditions in Northeast Minnesota's largest market.** Compared to March 2013, employment is higher, the unemployment rate is lower, the average weekly work week and average hourly earnings are higher, and the value of residential building permits has expanded, all favorable signs for the Duluth/Superior MSA.

## Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI increased in this year's first quarter, and is now 7.9 percent above its level one year ago. Since 2000, the LEI has shown two distinct dips, each of which was associated with recession. The LEI dipped from 2000 to 2002 (the national economy was in recession in 2001) and again from 2008 to mid-2009 (at which time the national economy was in the midst of a Great Recession).

### The SCSU Northeast Minnesota Leading Economic Indicators Index



### Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2014	Contribution to LEI, annual 2013
Minnesota Business Conditions Index	1.76	0.61
Northeast Minnesota initial claims for unemployment insurance	2.22	3.09
Northeast Minnesota new filings of incorporation and LLCs	0.16	1.75
Duluth Superior MSA residential building permits	-0.79	2.74
Institute of Supply Management Purchasing Managers Index for manufacturing	-2.55	0.41
TOTAL CHANGE	0.80	8.60

Two components of the LEI (see accompanying table) declined in the first quarter of 2014. Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator declined significantly in the first quarter but was up over the last 12 months. Residential building permits in the Duluth-Superior metropolitan area were negatively impacted by the weather in the first quarter, but had rebounded by March. Nevertheless, residential building permits were a slight drag on the LEI in the first quarter of this year. The three components that drove the LEI higher over the past three months are lower initial claims for unemployment insurance, new filings for business incorporation and LLC, and an improvement in the Minnesota Business Conditions survey (an indicator of general business conditions) conducted by Creighton University. While initial claims for unemployment insurance were virtually flat over the last year, they showed significant improvement in this year's first quarter compared to the last three months of 2013.

### SCSU Northeast Minnesota

#### Leading Economic Indicators Index

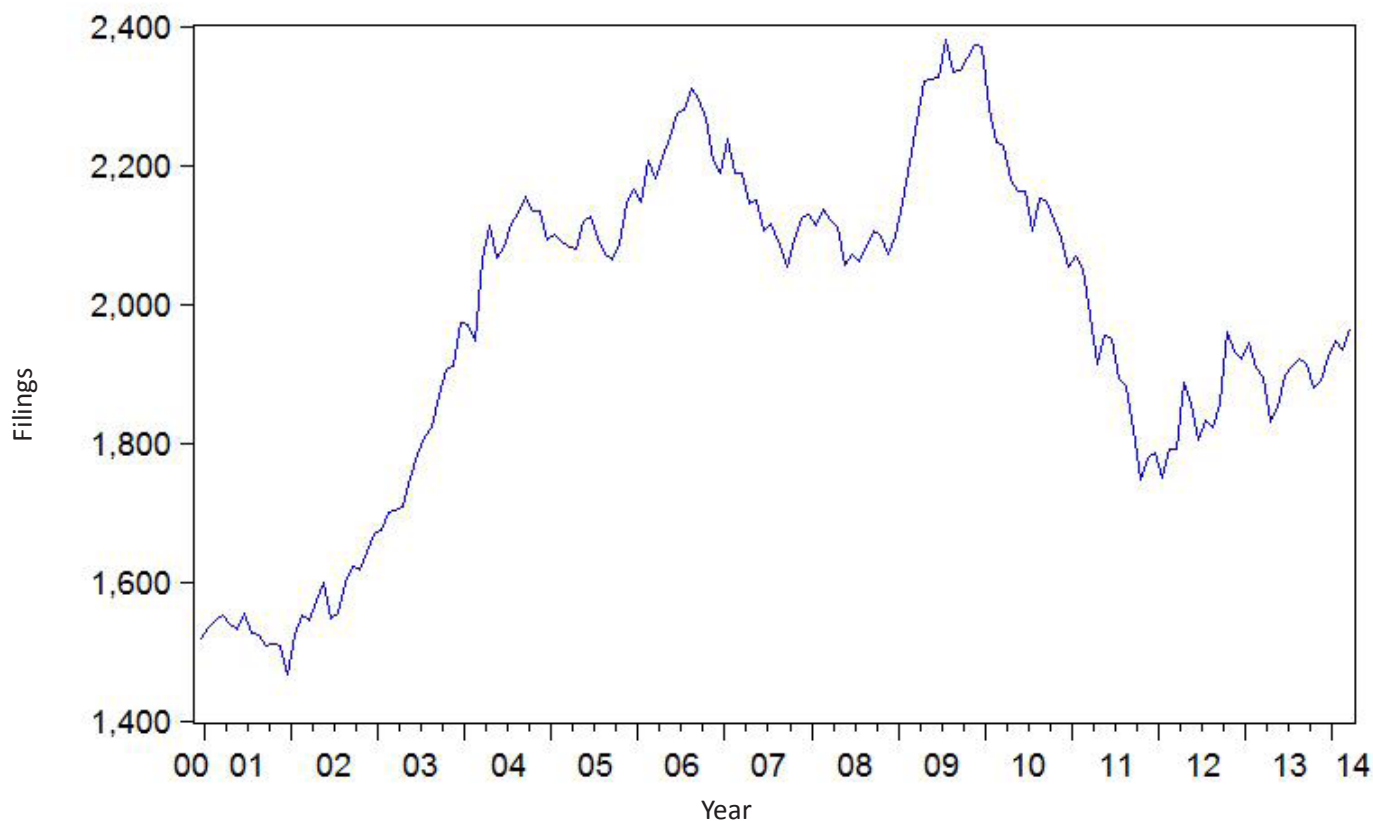
	2014	2013	Percentage change
Minnesota Business Conditions Index March	64.1	55.2	16.1%
Northeast Minnesota initial claims for unemployment insurance March	1,554	1,549	0.3%
Northeast Minnesota new filings of incorporation and LLCs First Quarter	320	301	6.3%
Duluth-Superior MSA residential building permit valuation In Thousands, March	44	32	37.5%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, March	53.7	51.3	4.7%
Northeast Minnesota Leading Economic Indicators Index March (December 1999 = 100)	96.6	85.4	7.9%

## Northeast Minnesota Business Filings

Total new business filings have increased at a slow pace since the middle of 2011. The period of the Great Recession led to a declining pace of business formation, although an increase in LLC filings drove activity higher in 2008. This increase was related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota. The weakness in late 2008 through 2009 followed a period in which new business filings were relatively flat. Business filings grew from 2001 to 2005.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data

Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northeast MN Total New Business Filings	497	539	420	467	539	8.5%

New business incorporations trended downward in Northeast Minnesota from 2007 to 2012. They have been relatively flat since that time, aside from a drop of 22.9 percent in the year ending March 2014.

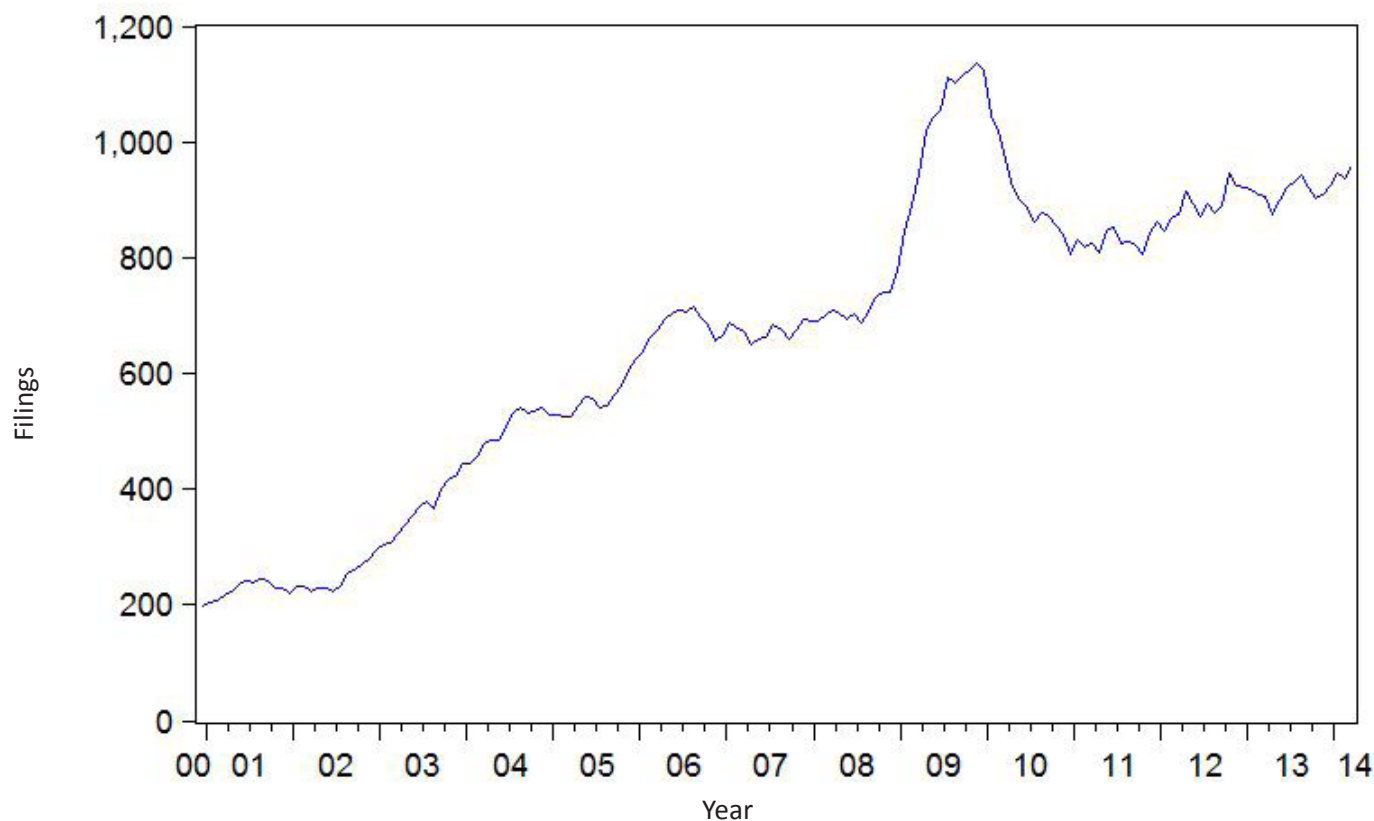
### New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northeast Minnesota New Business Incorporations	70	47	47	42	54	-22.9%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. Over the year ending in March 2014, LLCs increased 15.2 percent in Northeast Minnesota.

### New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	231	259	195	240	266	15.2%



Assumed names grew 12.9 percent over the past year in Northeast Minnesota. Only the Southwest Minnesota planning area saw this kind of growth in assumed names over the past year. The other four planning areas experienced declining new assumed names over the past 12 months. Note that the recent increase in new assumed names in Northeast Minnesota is only a partial catch-up for the precipitous decline in this series that started in 2011.

### New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northeast Minnesota New Assumed Names	170	203	149	157	192	12.9%

There were 27 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2014, one more than was recorded one year ago. The number of new non-profits filed in the first quarter of the past two years has now returned to the level observed immediately prior to the Great Recession, although it remains a long way from its all-time high in 2005 .

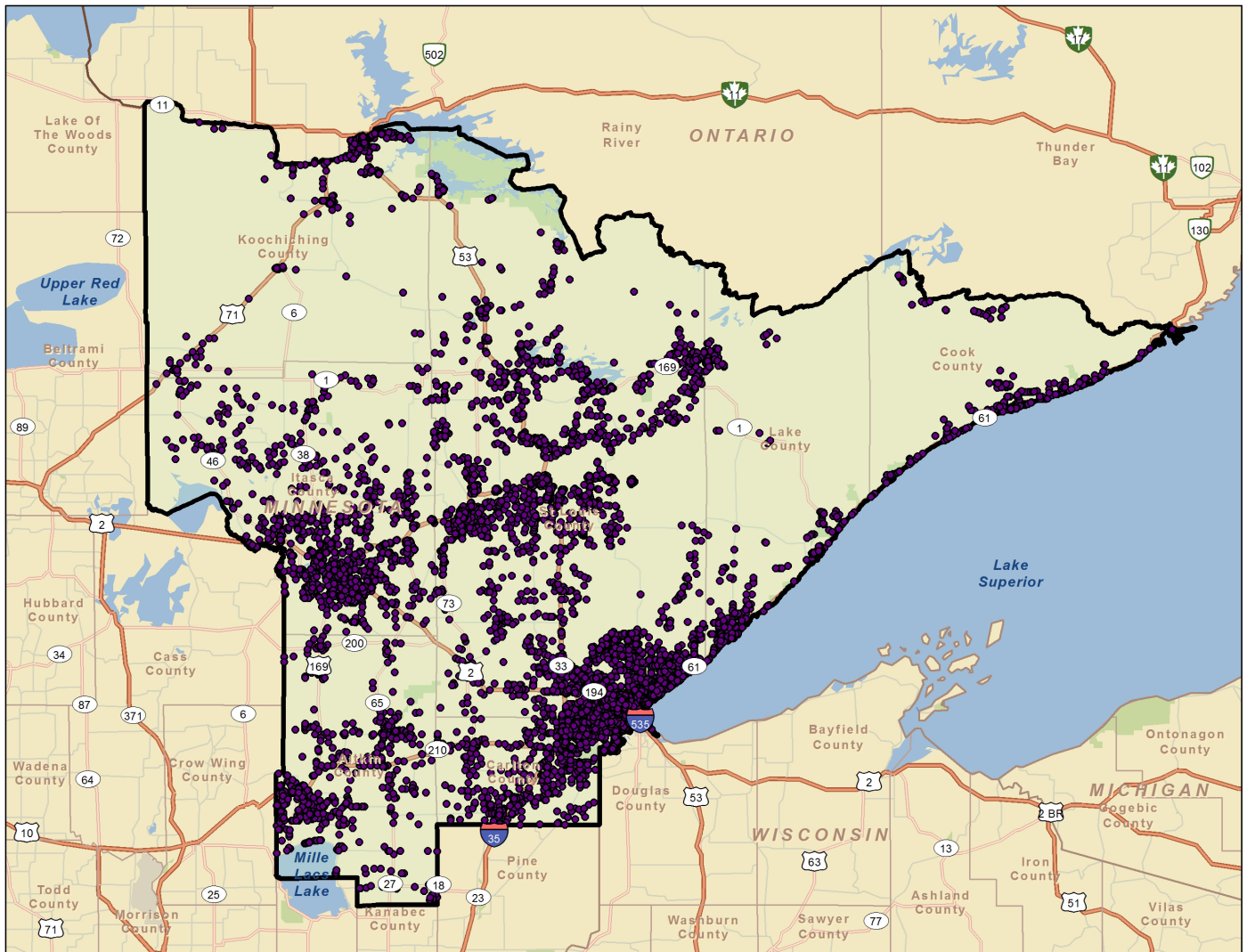
### New Non-Profits—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northeast Minnesota New Non-Profits	26	30	29	28	27	3.8%

The highlighted area in the map below is the seven-county Northeast Minnesota planning area, consisting of the following counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis. Each dot within the area is a new business filing that was registered between January 2000 and March 2014. Within this area there were: 5,687 new business incorporations; 11,331 assumed names ; 9,344 LLCs; and 1,529 non-profits. Some of these entities no longer exist due to bankruptcies, mergers and other forms of business closings.

### Geographic Distribution of All New Northeast Minnesota Business Filings since 2000



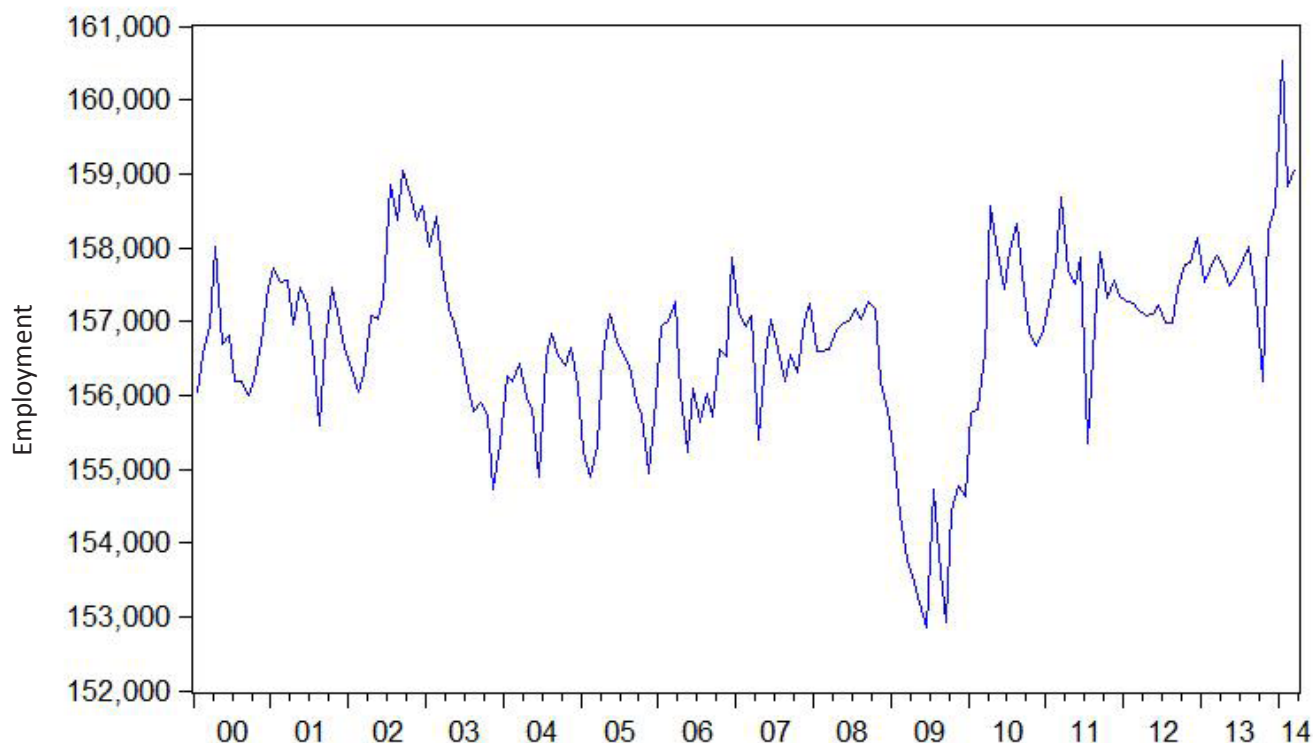
As one would expect, much of the development of new businesses is around the greater Duluth area and along major highways extending from the city. There is also significant development in and around Grand Rapids (one of the largest markets in the Northeast Minnesota planning area). Many businesses are also along the shore of Lake Superior and major highways like U.S. 2 and state highway 210. Several national forests and parks, plus Indian reservations such as Fond du Lac, leave some areas with sparser business development.

## Northeast Minnesota Labor Market Conditions

Northeast Minnesota employment grew 0.8 percent over the past year. On a seasonally adjusted basis, employment in the northeast planning area is now near an all-time high.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, [soparesearch@stcloudstate.edu](mailto:soparesearch@stcloudstate.edu).

### Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Employment (Not seasonally adjusted)	155,521	157,866	Year 158,386	157,028	155,760	156,111	156,705

Seasonally adjusted unemployment in Northeast Minnesota continued to decline gradually in the first quarter of 2014. At 7.2 percent, the non-seasonally adjusted rate is slightly below its level from one year ago.

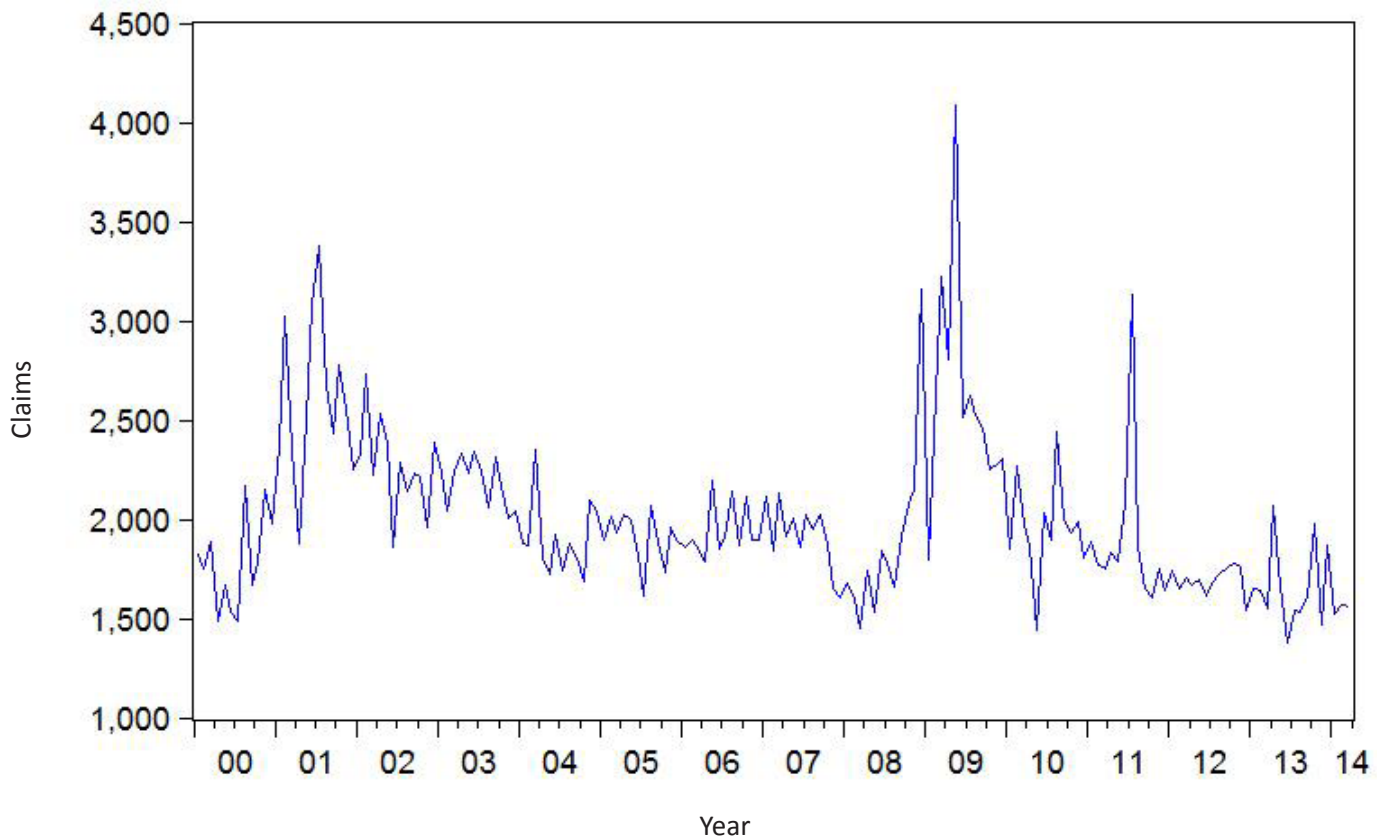
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Unemployment Rate (Not seasonally adjusted)	7.3%	5.4%	5.9%	6.3%	7.4%	7.4%	7.2%

On a seasonally adjusted basis, initial jobless claims in Northeast region are near a 15-year low. As indicated in the table below, March non-seasonally adjusted claims were basically unchanged from March 2013.

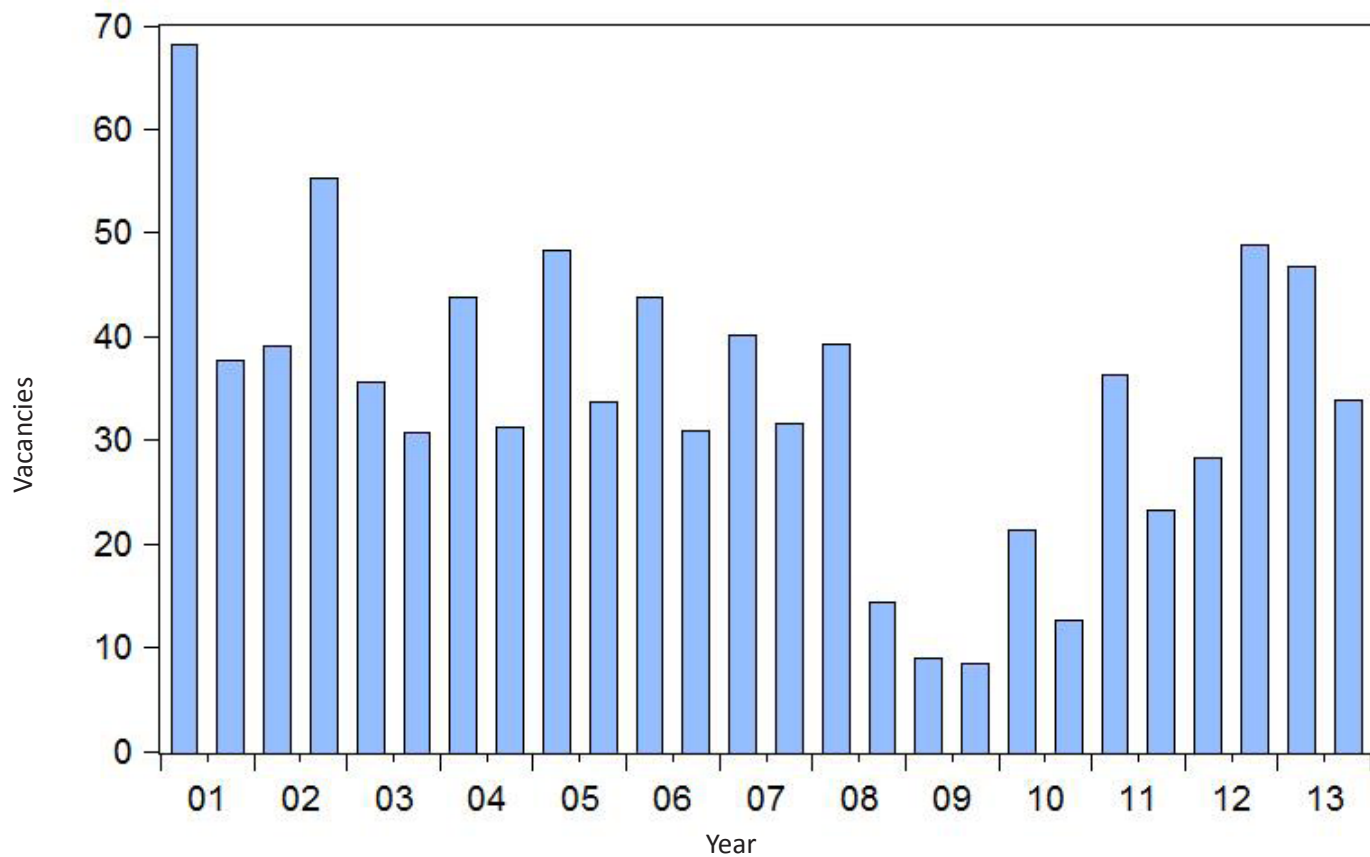
### Total Initial Claims for Unemployment Insurance, seasonally adjusted— Northeast Minnesota Planning Area



Period	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Initial claims (Not seasonally adjusted)	1,549	1,964	2,293	2,796	1,935	1,332	1,554

The level of job vacancies, although somewhat below the prior two half-year periods, remains elevated in Northeast Minnesota. There are nearly two job vacancies for every five people unemployed in the region, a large improvement from the weak labor market of the Great Recession.

### Job Vacancies per 100 unemployed—Northeast Minnesota Planning Area

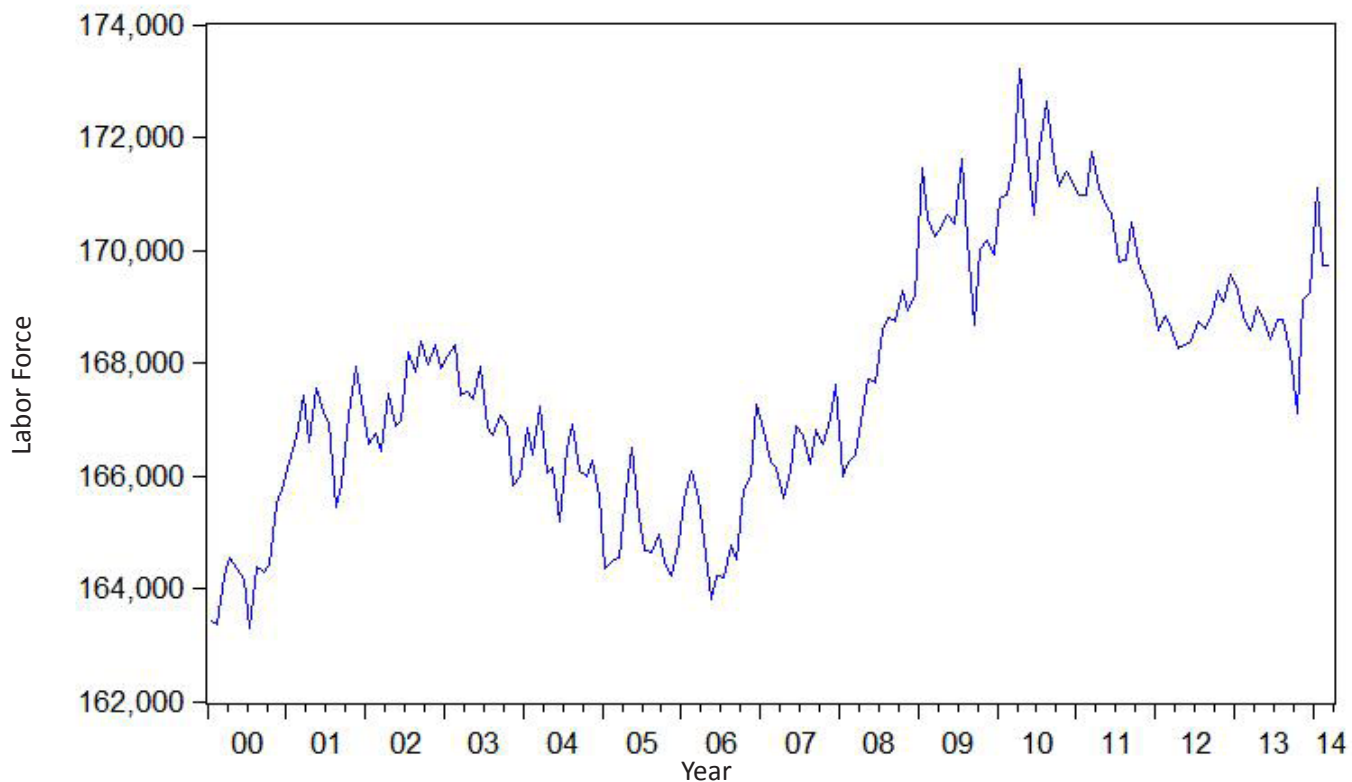


Quarter	2011: 2nd	2011: 4th	2012: 2nd	2012: 4th	2013: 2nd	2013: 4th
Vacancies /100 unemployed	36.06	26.92	28.36	54.13	46.5	37.37



The Northeast labor force appears to be recovering from a decline that lasted from early 2010 through 2013. Despite a 0.6 percent increase over the last year, the labor force has a long way to go to get back to its 2009 level.

Labor Force—Northeast Minnesota Planning Area (12-month moving average)



Year (March)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	169,342	170,760	170,928	167,816	167,738	168,818



## Northeast Minnesota Economic Indicators

Duluth - Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2014 (m)	131,183	130,889	0.2% ↑	0.3%
Manufacturing Employment	March 2014 (m)	7,203	7,311	-1.5% ↓	-1.9%
Educational and Health Sector Employment	March 2014 (m)	31,408	30,879	1.7% ↑	3.1%
Average Weekly Work Hours--Private Sector	March 2014 (m)	33.5	32.7	2.4% ↑	32 (since 2008)
Average Earnings Per Hour--Private Sector	March 2014 (m)	\$23.98	\$22.34	7.3% ↑	4.1% (since 2008)
Unemployment Rate	March 2014 (m)	6.7%	6.8%	NA ↓	7.0%
Labor Force	March 2014 (m)	146336	145372	0.7% ↑	0.2%
Duluth-Superior Residential Building Permit Valuation	March 2014(m)	2400	2193	9.4% ↑	4718

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where a variety of economic indicators suggest the economy improved from one year earlier. Overall employment and employment in its educational and health sectors (where more than 30,000 people are employed) increased over the last 12 months. In addition, the length of the average work week and average hourly earnings expanded in the private sector. The MSA's unemployment rate fell, the labor force increased, and the value of residential building permits rose — further evidence of economic expansion in Northeast Minnesota's largest market.

## State and National Indicators

<b>MINNESOTA Indicators</b>	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,813,900	2,811,700	2,770,000	0.1%	1.6%
Average weekly hours worked, private sector	34.0	34.0	33.4	0.0%	1.8%
Unemployment rate, seasonally adjusted	4.8%	4.7%	5.2%	NA	NA
Earnings per hour, private sector	\$25.86	\$25.94	\$25.55	-0.3%	1.2%
Philadelphia Fed Coincident Indicator, MN	160.98	159.85	156.40	0.7%	2.9%
Philadelphia Fed Leading Indicator, MN	1.21	1.9	1.27	-36.3%	-4.7%
Minnesota Business Conditions Index	64.1	58.9	55.2	8.8%	6.7%
Price of milk received by farmers (cwt)	\$26.40	\$22.10	\$19.50	19.5%	35.4%
Enplanements, MSP airport, thousands	1,568.8	1,392.1	1,510.1	12.7%	3.9%
<b>NATIONAL Indicators</b>	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	137928	137395	135682	0.4%	1.7%
Industrial production, index, SA	103.2	101.5	99.5	1.7%	3.7%
Real retail sales, SA	184140	182779	180159	0.7%	2.2%
Real personal income less transfers	11,063	10,987	10,830	0.7%	2.2%
Real personal consumption expenditures	10979	10844	10674	1.2%	2.9%
Unemployment rate	6.7%	6.7%	7.5%	NA	NA
New building permits, thousands	990	991	890	-0.1%	11.2%
Standard and Poor's 500 stock price index	1872.34	1848.36	1569.19	1.3%	19.3%
Oil, price per barrel in Cushing, OK	\$100.80	\$97.63	\$92.94	3.2%	8.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Earnings per hour in the private sector rose 1.2 percent over the past year. Broader indicators suggest strength in the state economy. Farmers are receiving higher prices for milk, an important indicator in many areas of Minnesota.

Despite a recent report of tepid output growth in the first quarter, the national economy continues its expansion. Despite a de facto tax hike that resulted from the elimination of the partial payroll tax holiday at the beginning of 2013, consumption rose 2.9 percent over the last 12 months, and building permits rose. The stock market surged in 2013, which may have helped consumer sentiment. Oil prices, on the other hand, rose over the past year, taking some discretionary income out of consumers' hands.

The Northeast Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Northeast Minnesota Planning Area consists of 7 counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

Reports on second quarter 2014 business and economic conditions in each of the six planning areas will be available in August 2014.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Joseph Kucan and Jie Zu. Our thanks to Professor David Wall and Ian Wolfe of the SCSU Geography Department for GIS assistance.

## *Sources*

*Council for Community and Economic Research:* Cost of Living Index.

*Creighton University Heider College of Business:* Minnesota Business Conditions Index, Rural MainStreet Index.

*Federal Reserve Bank of Philadelphia:* Minnesota Coincident Indicator Index, Minnesota Leading Indicators Index.

*Federal Reserve Board of Governors:* Industrial Production.

*Institute for Supply Management:* Manufacturing Business Survey, Purchasing Managers Index.

*Metropolitan Airports Commission:* MSP Enplanements.

*Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics):* Average Hourly Earnings, Average Weekly Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.

*Office of the Minnesota Secretary of State:* Assumed Names, Business Incorporations, Limited Liability Companies, Non-Profits.

*Standard & Poor's:* Standard & Poor's 500 Stock Price Index.

*Thomson Reuters and University of Michigan:* Index of Consumer Sentiment

*U.S. Bureau of Census:* Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.

*U.S. Department of Agriculture:* Milk Prices.

*U.S. Department of Commerce Bureau of Economic Analysis:* Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

*U.S. Energy Information Administration:* Oil Prices.